BEFORE THE

WASHINGTON METROPOLITAN AREA TRANSIT COMMISSION

WASHINGTON, D. C.

ORDER NO. 684

IN THE MATTER OF: Served March 13, 1967

Application of D. C. Transit System, Inc., for Authority to Increase Fares.

Application No. 396

Docket No. 131

APPEARANCES:

Harvey M. Spear, Leon G. R. Spoliansky, Samuel M. Langerman, attorneys for D. C. Transit System, Inc., Applicant.

Colin Barrett, pro se, Protestant.

John F. Satterlee, for the People's Republican Club, Intervenor.

Alfred S. Trask, for the Federation of Citizens Associations of the District of Columbia, Protestant.

Diana K. Powell, pro se and for Republican Precinct 46, Protestant - Intervenor.

L.G. Dowdey, attorney for Thomas E. Payne, and the Metropolitan Citizens Advisory Council, Protestant.

Russell W. Cunningham, General Counsel, Washington Metropolitan Area Transit Commission.

BEFORE EDWARD D. STORM, CHAIRMAN; H. LESTER HOOKER, VICE CHAIRMAN; GEORGE A. AVERY, COMMISSIONER

On October 17, 1966, D. C. Transit System, Inc. ("D. C. Transit"), filed an application with the Washington Metropolitan Area Transit Commission ("Commission") seeking authority to modify its fares for the transportation of passengers intrastate within the District of Columbia and Maryland, and interstate between the District of Columbia, Maryland and Virginia.

D. C. Transit's application, accompanied by appropriate tariffs, testimony and exhibits, requests authority from the Commission to establish the following fares:

1. Four tokens for $1.00 for regular route service within the District of Columbia (presently 4 for 85¢).

2. Transfer charge of 5¢ for regular route service within the District of Columbia, except for students using school tickets (presently free of extra charge).

3. D. C. Transit interline ticket for 35¢ plus 5¢ cash fare (presently 35¢ flat).

4. Interline ticket sold by other carriers plus 5¢ cash fare for regular route service within the District of Columbia (presently no additional charge).

5. Maryland local intrastate service:

(a) 25¢ cash fare for the first two zones of carriage, or any part thereof (presently 15¢ for first zone plus 8¢ for second zone);

(b) 10¢ additional cash fare for each of the third and fourth zones of carriage, or any part thereof (presently 7¢ each); and

(c) 5¢ additional cash fare for each succeeding zone of carriage, or any part thereof (presently 7¢ each).

6. Maryland-District of Columbia local interstate service:

(a) 45¢ cash fare for regular route service within the District of Columbia and the first two zones of carriage, or any part thereof, in Maryland (presently 40¢ for D. C. and first Maryland zone, plus 8¢ for second zone);

(b) 10¢ additional cash fare for each of the third and fourth zones of carriage, or any part thereof, in Maryland (presently 7¢ each); and

(c) 5¢ additional cash fare for each succeeding zone of carriage, or any part thereof, in Maryland (presently 7¢ each).

7. Maryland-District of Columbia express interstate service:

(a) 35¢ cash fare, or 10¢ cash fare plus either a valid D. C. Transit transfer or one token, between the District of Columbia and the Maryland-District of Columbia Line (presently 35¢ cash, or 14¢ cash plus either a valid D. C. Transit transfer or one token);

(b) 25¢ additional cash fare for the first two zones of carriage, or any part thereof, in Maryland (presently 8¢ for the first zone and 7¢ for the second zone-also ten-ride commutation ticket @ $4.10, covering District of Columbia and first Maryland zone);

(c) 10¢ additional cash fare for each of the third and fourth zones of carriage, or any part thereof, in Maryland (presently 7¢ each); and

(d) 5¢ additional cash fare for each succeeding zone of carriage, or any part thereof, in Maryland (presently 7¢ each).

8. Cash fare of 10¢ for Virginia interstate zone (presently 7¢).

9. Cash fare of 60¢ for Capitol Hill Express Service, or 35¢ cash fare and either a valid D. C. Transit transfer or one token (presently 50¢ cash or 30¢ cash plus a valid transfer).

10. Cash fare of 60¢ for seasonal operations between points in the Washington Metropolitan Area and D. C. Stadium (presently 50¢).

11. Cash fare of 35¢ for the first three zones of carriage, and the discontinuation of the issuance and acceptance of transfers, on the Silver Rocket Express Service (presently 30¢ with transfer provisions).

By Order No. 646, served October 21, 1966, the Commission scheduled the matter for public hearing, made provision for the availability of D. C. Transit's proposed testimony and exhibits, and directed applicant to post on its buses, and publish in a newspaper, notice of the time and place of the scheduled hearing.

Order No. 651, served November 15, 1966, suspended applicant's Supplement No. 5 to Tariff No. 29, Supplement No. 3 to Tariff No. 28, and WMATC Tariff No. 3 (Joint), until February 13, 1967.

PROCEDURAL HISTORY

Following a series of hearings which began on November 10, 1966, the Commission published its Order No. 656 on January 12, 1967. That Order discussed and analyzed certain operational and financial data and the revenue projections for the future test period, assuming no change in fares. It was found as a matter of fact that without a change in fares, applicant would operate at a substantial loss in 1967 and that, therefore, the present fare structure is unjust and unreasonable.

Order No. 656 then considered available alternatives to a fare increase. The "court-ordered reserve," the "acquisition adjustment account," the "reserve for track removal and repaving" and a possible change in the "bus purchase program" were all carefully considered and rejected as acceptable alternatives to generating additional revenues through the fare box.

The Order then considered the fares proposed by applicant and, after analyzing pertinent data and projecting the same for the test period, found that these fares would result in a return of 7.71% on gross operating revenues. This is a far greater return than this Commission has ever allowed the applicant. It is more liberal than the return allowed by the former regulatory commission in the case which resulted in the "court-ordered reserve" of the applicant. And 7.71% is a larger return than this Commission believed fair even in 1967 when interest rates, investment profits, and costs of living are higher than they have been for many years. Order No. 656 stated that a 7.71% return on gross operating revenues "might be in excess of a fair return." Even though it appeared that 7.71%, if permissible at all, would be in the extreme upper range for a fair return to this applicant, this Commission would not categorize that level as "unjust and unreasonable" until it was prepared to state with as much exactitude as the state of the art of rate regulation permits, what _is_ a fair return.

With bus riders in this area already being discriminated against by Federal Income Tax Laws, as those laws apply to privately owned urban transit companies, the Commission wanted to be especially careful to protect bus patrons from the slightest possibility of an overcharge to accompany their other rising costs of living. At the same time, the condition of the money market, when considered with the perilous financial condition of the applicant and the inherent advantages of transportation by carriers such as the applicant, demanded that especial care be taken to protect the company's constitutional rights.

The Commission therefore determined that, while it would not allow rates resulting in earnings which "might be in excess of a fair return," it could and would protect applicant from a financial situation which amounted to taking its property without due process and which imperilled its services to the public. It was determined to set minimum temporary rates which would be unquestionably fair to the bus rider and save the company from dangerous losses. Interim rates were then set to (1) cover operating costs, (2) enable the applicant to pay interest expense, and (3) allow a 6/10 of 1% margin for error and, if none, give a pittance available for the investor. Although obviously not a proper return to the applicant under the Compact or under the Company's franchise or under any recognized method of rate regulation, these interim or temporary rates seemed to be eminently fair to the bus patron since he was being relieved, for the time being, of his obligation to pay a return to the Company.

This bare-bones "rate of return" adopted for the interim fares would only have enabled a cooperative and understanding applicant to meet the need of the public for adequate and efficient transportation service for a short period--only for the time needed for an expert to make the necessary studies and prepare testimony to aid the Commission in meeting its responsibility in an unusual, perilous, stimulating and challenging period of history.

Order No. 656 then also considered the effect of the interim fare increases on connecting lines and generally discussed methods of setting fares and formulating tariffs, indicating why some of the requests by formal parties for new and different methods were unacceptable.

The fare increase ordered by Order No. 656 went into effect at 4:00 A.M., January 14, 1967.

Order No. 656 ordered the reopening of the D. C. Transit rate case to receive additional testimony on the subject of rate of return and to examine the accounting memorandum which had been placed into the record during the first week of January, 1967, which was after the date of the last public hearings which had preceded issuance of Order No. 656.

The accounting memorandum dealt with the details of the new labor contract promulgated between D. C. Transit System, Inc., and Local 689 with the Amalgamated Transit Union. This labor contract was retroactive to November 1, 1966, and contained certain definite provisions for increases in wages during the year 1967.

These increases in wages were outlined in subject accounting memorandum and were calculated in detail so that the Commission and all parties to the case could be made aware of the projected additional cost for labor in 1967 of $544,119. Provision for expenses in 1967, including the amount thus calculated, was included in the expense projections adopted by the Commission in Order No. 656.

On January 20, 1967, Commission Order No. 658 denied a motion for reconsideration of Order No. 656. On January 23, 1967, Order No. 659 was issued; this order likewise denied a motion for reconsideration of Order No. 656. Supplements to previous motions for reconsideration were dismissed on January 23, by Order No. 660.

On January 27, 1967, the United States Court of Appeals for the District of Columbia Circuit ordered the stay of Commission Order No. 656. Effective the next day, the fares which were made effective by Order No. 656 were replaced by the schedule of fares which were in effect during the year 1966 and up to the time that Order No. 656 was entered. On February 1, 1967, Commission Order No. 667 reinstituted the procedural provisions of Order No. 656 so that hearings could be continued in this rate case.

Meanwhile, the applicant challenged the 150 day rule under which the Commission had suspended the applicant's tariffs until Wednesday, March 15, 1967. By Order No. 668, served February 1, 1967, D. C. Transit's application for reconsideration of the 150 day rule was denied. Order No. 668 was appealed to the United States Court of Appeals for the District of Columbia Circuit by applicant, but hearing on that appeal was denied.

On February 7, 1967, Order No. 671 was issued by the Commission to announce that the reopened hearings in this case were scheduled for February 13, 1967. These hearings took place on the 13th, 14th, and 15th of February, 1967.

On February 23, 1967, the Commission received a Motion on behalf of Thomas Payne and the Metropolitan Citizens Advisory Council to dismiss D. C. Transit's application, to take additional evidence, and to conduct a scientific study to determine a fare structure which is equitable and non-discriminatory.

We do not consider it necessary to repeat the discussion of those issues in the case which were dealt with by our opinion in Order No. 656. As we understand the action of the Court of Appeals in Case No. 20714, it intended only to stay Order No. 656 insofar as it ordered an interim fare increase. The discussion of the issues, other than the matter of the interim fare increase, still remains the opinion of this Commission on the matters discussed. Certain questions concerning our conclusions in Order No. 656 were raised subsequent to the entry of that Order and we will deal with those questions in the present opinion and order.

The Commission now has before it the completed record in this case. Since the entry of our Order No. 656, we have held three additional days of hearings at which we heard the testimony of Dr. Merrill J. Roberts, a witness called by the staff pursuant to our direction, as outlined in Order No. 656. We have also heard rebuttal testimony from Mr. V. A. McElfresh, a witness presented by D. C. Transit. Each of these witnesses was cross-examined at length. All other parties were provided with an opportunity to present rebuttal testimony on rate of return but no additional evidence was presented by them. We also have before us a Motion to Dismiss the application and for certain other relief filed by Thomas Payne and the Metropolitan Citizens Advisory Council, both of whom are formal parties to this proceeding. We will discuss the contentions made in the Motion as they bear upon our general discussion of the issues and will pass upon the relief requested in our final order in this proceeding.

PROJECTED OPERATING RESULTS UNDER EXISTING FARE STRUCTURE

Before embarking on our discussion of rate of return, it would be well to review briefly our discussion in Order No. 656 and fix our starting point. On the basis of the facts adduced at the hearing, we set forth, in Order No. 656, a projected operating statement for the year 1967 at present fares. We will repeat that table here:

PROJECTED OPERATING STATEMENT
FOR THE YEAR 1967, AT PRESENT FARES

Operating Revenue		$33,694,409
Operating Revenue Deductions:		
Operating Expenses	$30,636,944	
Taxes, other than income taxes	1,013,693	
Depreciation	2,964,321	
Amortization of Acquisition Adjustment	(194,516)	
Total Operating Revenue Deductions		34,420,442
Net Operating Income (Loss)		$ (726,033)
Operating Ratio	102.15%	
Return on Gross Operating Revenue (Loss)	(2.15%)	

We start, therefore, with the basic conclusion that under the existing fare structure, D. C. Transit will have a net operating loss in 1967 of $726,033. No evidence was adduced or profferred at the latest hearings which casts doubt on this conclusion. However, the Motion to Dismiss, alluded to earlier, does question the conclusion and we will now consider the points raised by the Motion in this connection.

The Motion first contends that the loss has a "highly theoretical character" because of the high dividends paid by D. C. Transit System, Inc. of D. C. In fact, this company has not paid a dividend since July, 1966. Whatever the dividends may have been in the past, the current dividend history indicates no conflict with our conclusion as to the company's present financial condition.

To provide further support for their contention, Movants ask whether the loss is made up for by an excessive depreciation allowance. However, the depreciation allowance is not a figure set at the whim of the company. The company's depreciation rates are prescribed by this Commission. They were reviewed thoroughly as recently as 1964. In that year, the Commission entered two orders, Nos. 362 and 381, which established depreciation rates on all classes of property owned by D.C. Transit. Order No. 381 was based upon an exhaustive study of depreciation practices of the company made by the well-known engineering firm of Stone & Webster Service Corporation. Order No. 362 not only prescribes the depreciation rate but requires that a fixed number of buses, equal to one-twelfth of the fleet, be purchased each year, thus giving assurance that the depreciation rate will be tied to the life of the buses. Nor was the subject of depreciation rates ignored in this proceeding. The staff suggested a change in depreciation rates as a means of avoiding a fare increase. For reasons spelled out in Order No. 656, we rejected that approach. The Movants presented not one single fact to challenge the previously established depreciation schedules. Absent any basis upon which they can be challenged, we must decline to disturb them.

Movants next question the other reserves of the company, stating that "to the extent such deductions are overstated they result in a hidden profit to the company." If the deductions were overstated the result could indeed be as described in the Motion. However, Movants suggest no reason, or basis for belief, that these reserves were overstated. As we pointed out in Order No. 656, the staff of the Commission audited and thoroughly analyzed the company's books, and adjustments to the operating statement were made on the basis of this audit. We would certainly not be justified in rejecting evidence undisputed on the record simply on the basis of an unsupported allegation that <u>if</u> something were wrong with the deductions for reserves, hidden profits would result. We are reinforced in this conclusion by the lack of merit in Movants' one reference to a specific reserve account. Having made their general observation, Movants go on to contend that no meaningful inquiry was made into the Acquisition Adjustment Account. This subject was, in fact, thoroughly and repeatedly explored in the testimony of record, and in Order No. 656, we carefully discussed whether we should make use of the Acquisition Adjustment Account in lieu of adjusting fares. Movants' claims on this point are patently without merit and provide no basis for questioning our conclusions as to the operating results to be expected under existing fares.

Next, Movants claim that we have not appraised the tax advantages available to the company. In fact, in assessing D. C. Transit's operating results under its proposed fare structure, we disallowed almost all the amount requested for income taxes just because we concluded that such taxes could be avoided by taking advantage of certain tax losses. As will be seen below, we take the same approach in establishing a fare structure in this order. It is difficult to see what more could be done in this regard. Again, Movants' position is lacking in substance.

Finally, Movants see a need for inquiry into the disposition of the riders' fund. This is a matter which was thoroughly explored in Docket No. 101. Our treatment of this matter is presently on review in the Court of Appeals. There would be little point in exploring this subject further in the present proceeding.

In Paragraph 5 of their Motion, Movants take a different tack. They question, not whether the amounts allowed for expenses were actually expended, but whether these expenses were reasonable. They base their attack on data gleaned from Exhibit S-7 which sets forth operating statistics from ICC reports on a number of urban transit companies. Because D. C. Transit's expense figures are higher than those of four other transit companies shown on the exhibit, Movants suggest that the company's efficiency is called into question. However, counsel for Movants pursued this subject in cross-examination of both Dr. Roberts and Mr. McElfresh, both of whom testified that no conclusions on the efficiency of D. C. Transit's operations could be drawn from Exhibit S-7. Figures on operating expenses are so affected by the peculiarities of a given operation that little can be concluded from a mere comparison of end results of one company to another. Rather than reach a conclusion by sheer speculation based on faulty data, we prefer to rely on our knowledge that our staff, in whom we have great confidence, maintains a constant watch on the company's operation and has not called into question its overall efficiency.

These, then, are the only arguments put forward by anyone which bear upon the validity of our conclusions as to the operating results to be expected under the existing fare structure. These arguments provide no basis for changing our conclusion that a loss of $726,033 will be encountered in 1967 if present fares are not changed.

THE RETURN TO BE ALLOWED

We can now turn to the one question of substance remaining before we can settle on a just and reasonable fare structure. This is the question of the fair return to be allowed the company. We had earlier heard the testimony of Mr. V. A. McElfresh on this subject.

Mr. McElfresh, of H. Zinder & Associates, an expert in the field of utility ratemaking and fair return, presented compilations showing rates of return allowed by regulatory authorities and the courts in cases involving transit companies and other utility companies. He compared this data with relevant data of D. C. Transit, and extended this comparison to the history of stock prices on the market for other carriers and for D. C Transit's parent, D. C. Transit of Delaware. He discussed price-earnings ratios and other indicators of the cost of capital in attempting to arrive at a fair rate of return on D. C. Transit's capitalization.

In essence, Mr. McElfresh urged upon the Commission an approach to resolving the rate of return question which purports to be the "comparable earnings" approach. In Exhibits 26 through 32, he set forth figures showing the returns earned by groups of other transit companies and even by other types of regulated utilities, such as gas, electric and telephone companies. He also provided us, in Exhibit 31, with a tabulation of returns on gross operating revenues allowed by other commissions in cases in recent years involving transit companies. The information he had supplied, Mr. McElfresh said, would provide a basis on which the Commission can, in the exercise of its judgment, determine the proper rate of return.

For reasons spelled out in Order No. 656, we determined to hear further evidence on the subject and directed the staff to engage an independent expert to testify thereon.

Dr. Roberts' Testimony

At the recent hearings, we heard the views of the staff's witness, Dr. Merrill J. Roberts, a distinguished economist and professor at the University of Pittsburgh. Dr. Roberts presented an interesting and penetrating analysis of the financial background and needs of D. C. Transit. It would perhaps be well at this point to describe briefly his approach and his results.

Dr. Roberts recognized that the return element must reward the equity holders appropriately for the risks they undertake in the operation of the business. He classifies these risks into two categories: business risk and financial risk. Business risks are those of the market place -- changes in demand; technological developments; competitive alternatives. Financial risk is the element of risk voluntarily undertaken by the company through its shaping of its capital structure.

Dr. Roberts examined the business and financial risks to which D. C. Transit was subject. He concluded that D. C. Transit was subject to less business risk than other transit firms. He based this conclusion on a number of factors, including first, its large size and its position in the Trans-Caribbean Airways holding company system, which provides it with easier access to capital markets.

To further support his assessment of the business risks faced by D. C. Transit, Dr. Roberts made an analysis of the company's operating statistics, pointing out that ridership was growing, that vehicle utilization was increasing, and that average vehicle speeds were going up. Thus, D. C. Transit has been experiencing a modest but encouraging growth pattern -- a pattern which Dr. Roberts feels will continue due to a general pattern of population growth in the company's service area. Dr. Roberts contrasted this growth pattern with the declining trend in the transit industry generally.

The staff's witness also discussed the impact on the business risk factor of the regulatory system applicable to D. C. Transit. Dr. Roberts points out that use of the concept of return on gross operating revenue creates a fairly rigid correlation between the dollar earnings of a firm and its overall volume of business. He further points out that in the transit business almost no new capital is raised through the issuance of capital stock, thus making the existing fund of capital stock a constant. The combination of these two factors means that the only prospect for growth in earnings per share arises from a growth in the volume of business. The growth trend of D. C. Transit, as noted above, thus makes it a less risky venture than most other transit operations, permitting a lower rate of return than would otherwise be possible.

Dr. Roberts also appraised the risk involved in regulatory performance, i.e., the accuracy with which this Commission has been able to forecast operating results. He concluded that we had been quite accurate and that D. C. Transit faced little risk on that account.

The staff witness disagreed with Mr. McElfresh's assessment that the prospect of the subway heightened the business risks of D. C. Transit. Dr. Roberts points out that use of buses for feeder lines to rapid transit may well increase passenger volume. Moreover, feeder trips, which would be short in length and would avoid congested downtown areas, could well be less costly to the company than longer trips from the suburbs to the city core. Thus, the subway might well end in protecting the bus operator rather than threatening him.

Finally, Dr. Roberts rejects the argument that D. C. Transit must be considered a higher risk investment than other transit companies because of its high debt-equity ratio. He compared the interest rates paid by D. C. Transit on its debt with interest rates on comparable government debt instruments. This comparison measures, in his view, the premium for risk being paid by the company. If, as the debt ratio increases, there is also an increase in difference between the interest rate paid by the company and the interest rate on government debt, then the company is increasing its financial risk. Conversely, if this relationship between the company's interest rates and government interest rates does not appear, then it can be concluded that the company's increasing debt ratio does not add to its financial risk. Dr. Roberts made a comparison of the interest rates on D. C. Transit's debt with interest rates on comparable government debt and found that the difference between them did not increase as the debt-equity ratio rose. He therefore concluded that the debt-equity ratio did not increase the risks involved in D. C. Transit as an investment.

In explanation of this phenomenon, he pointed, first, to the nature of the debt involved. Most of it is in equipment obligations. The security offered by the vehicles provides good protection for the lenders. In addition, the equity holders in the company are not threatened with a general take-over in the event of default as would be the case with general mortgage bonds. Of most significance, said Dr. Roberts, was the limitation on risk provided by the company's real estate subsidiaries. On a consolidated basis, the debt-equity ratio is only 6.0 contrasted with 15.3 for the transit company alone.

This, then, was Dr. Roberts' assessment of the risk factors faced by D. C. Transit in the conduct of its business. His analysis of them seems to us eminently sensible and we have reached the same conclusions on this point that he did. That is, we conclude that D. C. Transit faces less risk than other transit companies, and whatever risks it does face are not the result of its high debt-equity ratio.

Our inquiry, of course, does not end here, nor did Dr. Roberts' testimony. Having reached these general conclusions as to the degree of risk faced by D. C. Transit, we must quantify the return required by that degree of risk, i.e., we must determine how many dollars the company should be allowed to earn, given our assessment of the risks involved in its business. We will describe, first, how Dr. Roberts reaches his conclusions on this point.

He first posits that the equity owner of the company -- in this case D. C. Transit of Delaware -- will look for a return on the company on the same level as returns from companies with the same general level of business risk. He establishes the premise that the cost of capital can be measured as a weighted average of the after tax cost of debt and equity. This premise, he points out, carries the implication that the higher the debt-equity ratio is, the lower will be the cost of capital to D. C. Transit. There is no way to measure directly from comparable market data the cost of capital to D. C. Transit of D. C. because the company is 100% owned by D. C. Transit of Delaware. Hence, the cost of capital must be measured indirectly. Dr. Roberts did not feel that it would be a valid approach to use the cost of capital for D. C. Transit of Delaware as a measure of the capital costs of D. C. Transit of D. C. He therefore turned to an alternative approach. He estimated the actual cost of equity capital for a group of comparative transit companies, given their existing capital structures. He then used these estimates, along with the debt-equity ratios of the companies involved, and the interest rates they pay on their debt, to reach a theoretical cost of equity capital for each company, assuming it had no debt. He then estimated D. C. Transit's theoretical cost of equity capital assuming it had no debt. With this number he then reached, first, D. C. Transit's cost of equity capital, given its debt-equity ratio, and finally, its overall cost of capital.

The first problem faced by the witness was to evolve a procedure for estimating the actual cost of equity capital for the companies involved in his study. For this purpose, he used the sum of the current dividend yield plus an estimated growth rate of dividends. In estimating the growth rate, Dr. Roberts did not look simply at past growth rates but also considered growth in earnings per share and growth rates in the price of the security involved. Dr. Roberts rejected the use of earnings-price ratios as a measure of the cost of equity capital, pointing out that, under present market conditions, this method generally underestimates the cost of equity capital.

Without discussing in detail Dr. Roberts' analysis of each of the comparative companies, he reviewed the factors he considered pertinent to estimating cost of capital for five transit companies whose stock was publicly traded.1/ For each of them, he evolved an estimated cost of equity capital which he deemed sufficiently accurate. By a mathematical analysis, he then evolved a theoretical cost of equity capital for each company if each had had no interest bearing debt.2/ These figures, in his judgment, measured the compensation required for the business risks involved in each company. The results are summarized in Exhibit R-15C. They show a range of figures from 10.9% to 13.9%.3/

1/ The companies were: Baltimore Transit Company, Baltimore, Maryland; Cincinnati Transit Company, Cincinnati, Ohio; Minnesota Enterprises, Minneapolis-St. Paul, Minnesota; Niagara Frontier Transit Company, Buffalo, New York; United Transit Company, operating in various cities.

2/ The theoretical cost of capital was computed by use of the following formula, found in Exhibit R-21:

$i = Rho_k + (1-y\ (D/E)(Rho_k - r)$. The symbols in this formula have the following meanings:

i= return on equity; Rho_k= all-equity cost of capital for a firm with business risk "k"; D/E= debt-equity relationship; r= interest rate on debt; y= income tax rate.

3/ The data for one company was susceptible to considerable fluctuation. The witness was able only to give a range of possible values for that company. The range had a low of 9.7% to 12.6%. The figures given in the text ignore the low side of this range on the assumption that the actual value for this company is somewhere in the middle of this range.

Dr. Roberts verified the answers he achieved through his analysis by comparing his results with general ideas about business risk. He found that he had gotten the lowest cost of capital figures for the company which probably had the least business risk and that each of the other companies seemed to fit on the spectrum in a manner consistent with the risks they face.

Dr. Roberts then used his judgment as to the comparative business risks of D. C. Transit to determine where on this spectrum D. C. Transit should be placed. Because of his conclusion, earlier described, that D. C. Transit faced less business risk than other transit companies, he placed D. C. Transit on the spectrum at a point lower than any other company. Specifically, he estimated a theoretical cost of capital for D. C. Transit of 10%. From this figure, Dr. Roberts was able to work back by the same mathematical method used for the five comparative companies, to an estimate of D. C. Transit's actual cost of capital, given its exsiting debt-equity structure. To do this, Dr. Roberts had to have a figure to use for existing debt-equity ratio. In his calculations for the comparative companies, Dr. Roberts used a debt-equity ratio which related the market value of debt to the market value of equity. A similar figure had to be used for D. C. Transit to make the comparison valid. In D. C. Transit's case, there is no readily available figure for market value of equity since the company's stock is not traded. To deal with this problem, Dr. Roberts used book value for most assets on the assumption that book value approximated market value. However, in the case of real estate, he adjusted book value to market value by assuming that assessed valuation for tax purposes was 55% of market value. By this method, Dr. Roberts determined that the market debt-equity ratio for the consolidated company, i.e., D. C. Transit of D. C. and its subsidiaries, was 2.18. The cost of debt was taken at 6%. Dr. Roberts' calculations led to the conclusion that the most likely estimate of the cost of equity capital for D. C. Transit of D. C., given its debt-equity structure, was 15.6%. By further calculation, it was determined that the best estimate of the after-tax overall cost of capital for D. C. Transit was 7.05%.

The final step in Dr. Roberts' analysis was to evolve an actual dollar return figure. Dr. Roberts felt that, in view of the methodology used in reaching the cost of capital figure of 7.05%, logic required that this percentage be applied to the market value of the firm. To determine this market value, he used the alternative use value of the assets. In other words, he assumed that the book value of most assets of the company would approximate their market value. However, certain assets, namely land and buildings, might have a greater value if put to other uses. To approximate that value, he determined their market value by assuming that assessed value for tax purposes was equal to 55% of market value. By means of calculations spelled out in the record, he reached a market value, i.e., alternative use value, of the company of $27,636,367.[4/] Applying the cost of capital figure of 7.05% to this amount, Dr. Roberts concluded that the company required a dollar return of $1,947,800.

Dr. Roberts then determined the level of revenues which would be necessary to produce this dollar return. He took as his starting point the table set forth on page 26 of Order No. 656. This table set forth a level of operating revenues and expenses which would produce a return of $1,520,323. Dr. Roberts calculated that the return ought to be $1,947,800, i.e., $427,477 more than would result from the fare levels underlying the chart on p. 26 of Order No. 656. To provide this additional return Dr. Roberts doubled $427,477, thus providing for taxes, reaching a total of $854,954. This figure was then added to the gross operating revenues shown in the table on p. 26 of Order No. 656, producing proposed gross operating revenues of

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4/ This is actually, but only coincidentally, quite close to the system rate base figure of $27,325,520 set out in D. C. Transit Exhibit 8.

$36,796,475. The return which would result, i.e., $1,947,800 would produce a rate of return on gross operating revenues of 5.29%.

It would be well at this point to analyze a little further this proposed return. As previously stated, it would produce net operating income of $1,947,800. From this amount would have to be deducted an additional $1,311,000 for interest payments on debt, leaving available, for the equity holders in the firm, the amount of $636,800. This would be available for dividends or earned surplus.

Analysis of the cash flow sheds further light on the return proposed by Dr. Roberts. The cash flow can be summarized as follows:

CASH FLOW, NET OF OPERATING EXPENSES, 1967

SOURCE OF FUNDS

Net operating income	$ 1,947,800
Depreciation accruals	2,964,000
Acquisition Adjustment	(195,000)
Total Expendable Cash	$ 4,716,800

APPLICATION OF FUNDS

Interest payments	$ 1,311,000
Principal payments on debt	2,973,000
Sub-total	$ 4,284,000
Available for dividends or working capital	432,800
Total	$ 4,716,800

Thus, while a book figure of net operating income of $1,947,800 would appear to leave $636,800 available for the equity holders, the actual amount of cash available would be

$432,800. Dividends involve a cash expenditure. Only the $432,800 in cash would be generated through operations for dividend payments. In Dr. Roberts' view, dividends should be even less than that. He pointed out that the company faced a serious cash shortage. The working capital ratio was only .32, as of August 31, 1966. Typical ratios for other transit companies ranged from 1.44 to 1.66. It was in this range that Dr. Roberts thought D. C. Transit's ratio should fall. Thus, he expressed the expectation that the return provided by his analysis would be used, at least in part, for a modest improvement in the company's working capital position. This, then, was the testimony before us. We can now turn to our own consideration of the question before us.

The Adequacy Of The Record On Rate Of Return

Our ultimate inquiry here is the fair return to be allowed D. C. Transit. As all commentators on utility regulation point out, this is, in the last analysis, a matter for the judgment of the Commission. There is no way in which the answer can be reached by simple deductive reasoning. Essentially, we are not trying to determine a fixed and knowable cost. Rather, we are trying to predict what amount of return to the equity holders of the company will permit the company to attract investors and to provide both the form and substance of financial strength and stability. We are seeking to set this return at the lowest possible level consistent with these objectives. On the other hand, we are very much aware that the company's financial health is directly related to the standards of service which can be demanded of it. Our objective has been, and will continue to be, a high standard of service for the people of this community. The company cannot provide that standard if kept on a starvation diet financially.

Our task, then, is the exercise of judgment, but it must be an informed judgment. We must have before us the pertinent facts. This is a matter of necessity. We also wish to have, as a matter of preference, the assistance provided by expert opinion on, and analysis of, those facts. We reopened the record in this proceeding because, for the reasons outlined in Order No. 656, we wished to have a fuller record before determining the rate of return question. We have now heard Dr. Roberts' analysis, as presented in his direct testimony. We have also had the benefit of intensive cross-examination of Dr. Roberts both by D. C. Transit and by counsel for Intervenors. We have heard further testimony from Mr. McElfresh both in amplification of his earlier testimony on rate of return and in rebuttal to Dr. Roberts. Mr. McElfresh was also cross-examined at length.

In our judgment, we now have an ample basis for deciding the rate of return question. In the Motion to Dismiss, Movants suggest that we hear further witnesses on the subject of rate of return. Movants made no effort to present such testimony at our further hearings although they had ample opportunity to do so and we would have been glad to hear from them on the subject. Indeed, they do not even suggest in their Motion that they would now offer such evidence. They merely suggest that it should be forthcoming from some source. In any event, we do not feel it necessary to hear from additional rate of return experts since we are convinced that the present record provides an ample basis for the exercise of informed judgment on the rate of return question. We do not mean that the witnesses we have heard on the subject have disposed categorically of every possible question which could be raised concerning rate of return. We would never reach a decision if we waited until that point. Rather, we think we have before us sufficient data on which to base our own judgment.

The Return To Be Allowed

We have decided that the fair return which should be allowed the company on the basis of this record is approximately $1,900,000. This is approximately the amount recommended by Dr. Roberts. The fact that we will allow this amount, however, does not mean that we have given unqualified acceptance to Dr.

Roberts' methodology and approach. As discussed below, it is the end result with which we are concerned and the conclusion which Dr. Roberts reached has much to recommend it.

To begin with, it is not an arbitrary figure picked out of the air. The figure resulted from an analysis which, beyond question, was a sincere, unbiased and dispassionate attempt by a well-qualified expert to find an answer to the rate of return question. The analysis, moreover, was obviously the product of a skilled and thoughtful approach to the pertinent facts concerning the company. Whatever problems we may have with some of the premises, methods and assumptions used by Dr. Roberts, his analysis was logically consistent throughout. It had the significant merit of being based upon an assessment of the business and financial risks faced by D. C. Transit with which we are in complete agreement. Finally, the analysis specifically took into account a number of factors which we feel are important in reaching a proper conclusion on the fair return.

For instance, Dr. Roberts specifically considered, and took into account, D. C. Transit's own cost of borrowing capital funds and the effect of his conclusions on a continuing ability to borrow funds. He took into account whether the company's debt-equity structure was, and would continue to be, a desirable one, and the effect of that debt-equity structure on the cost of capital. He did not treat the company's past dividends as a fixed and immutable cost. Indeed, his recommendation would undoubtedly lead to a lower dividend than in the past. He gave effect of the company's position in a holding company structure, concluding that it lowered the risks inherent in the transit business and, therefore, the cost of capital.

He considered the company's working capital needs. He gave effect to the incentives required for the equity holders of the company, including, specifically, opportunities available through alternative uses of the equity holders' capital. Finally, he considered the earnings levels of other enterprises which he felt were comparable.

In short, he considered and took into account, in reaching his conclusions, a number of factors considered important both by this Commission and by the Court of Appeals.

It was when Dr. Roberts came to quantifying his general conclusions that his approach assumed a more judgmental character. The method used appears to us to be a highly technical and theoretical way to reach an answer as to the dollar figure the company must be allowed to earn. Reading the testimony, it is apparent that a great deal of judgment was involved in reaching an estimated cost of equity capital for each of the five comparative companies. From there, a theoretical cost of equity was evolved through a complicated mathematical process which requires the acceptance of a number of assumptions. When this theoretical cost of capital for each company had been determined, judgment further came into play in fixing a theoretical cost of capital for D. C. Transit. Then, the logic of the approach required that a determination be made as to the market value of D. C. Transit's real estate assets. This determination involves a further set of assumptions and judgment. Moreover, this increase in real estate value becomes part of the base to which the cost of capital percentage is applied to reach a dollar return figure. This raises the possibility that an increase in fares could result merely from an increase in real estate values. This result is not a matter of necessity, however. That same increase in real estate values could lead to a lessening of risk, thus lowering the cost of capital figure. In other words, the increase in value of real estate could lead to increases in fares only if this Commission saw fit to let it do so and there are ample grounds available on which such results could be avoided if this were what justice required.

The problems we have with Dr. Roberts' analysis need not give us pause, however, if the end result can be said to be reasonable. The Hope case[5/] made it clear that it is this-- the end result -- which matters. Indeed, Dr. Roberts did not ask us blindly to accept his conclusions. He testified specifically that we should exercise our own judgment in determining

5/ FPC v. Hope Natural Gas Co., 320 U.S. 591, 602 (1944).

whether the result he reached made sense. We believe that a return of about $1,900,000 does make sense. As previously indicated, $1,311,000 of this amount would be used for interest payments on debt so it is the appropriateness of the remaining $600,000 on which we should focus.

First, though, we should fit the return allowed in with some known concepts in rate of return analysis. By permitting a dollar return of about $1,900,000, we would be allowing a rate of return on gross operating revenues of 5.24%. The derivation of this figure is as follows:

PROJECTED OPERATING STATEMENT FOR YEAR
1967 AT FARES AUTHORIZED BY THE COMMISSION

Operating Revenue		
Passenger		$34,019,792
Charter		1,995,224
Government Contract		110,477
Station and Vehicle Privileges		140,003
Other		79,651
Total Operating Revenue		$36,345,147 6/
Operating Revenue Deductions		
Operating Expenses	$30,636,944	
Taxes, Other Than Income Taxes	1,013,693	
Income Taxes	20,937 7/	
Depreciation	2,964,321	
Amortization of Acquisition Adjustment	(194,516)	
Total Operating Revenue Deductions		34,441,379
NET OPERATING INCOME		$ 1,903,768
Operating Ratio		94.76%
Rate of Return on Operating Revenue		5.24%

6/ and 7/ See next page.

The above net operating income of $1,903,768 equates to a return on system rate base of 6.97%.[8] The return is based on Dr. Roberts' cost of capital analysis making use of a weighted average cost of debt and equity of 7.05% (or in the range of 6.7% to 7.7%) in which the cost of equity alone was set as 15.6% (Tr. p. 1316). The net operating income of $1,903,768, when related to capitalization of Transit as of August 31, 1966 (Co. Exh. 2) equals 6.17%; and the net income available to the equity holders is 14.08% of equity as of August 31, 1966 (Co. Exh. 2). These percentages are both a shade below the recommendations of the Staff expert.

6/ An increase of $2,650,738 over projected revenues in 1967 without a fare increase. (Source: Exh. 50-A, Col. h. line 1)

7/

Net Operating Income	$ 1,903,768	
Add: Income Taxes (State)	20,937	
	$ 1,924,705	
Deduct: Amortization of Acquisition Adjustment	(194,516)	
Interest	(1,311,444)	
Net Taxable Income <u>for State Taxes</u>	$ 418,745	
5% Thereon		$ 20,937
Net Taxable Income for State Taxes	$ 418,745	
Deduct: State Taxes	(20,937)	
Net Loss Carry-over from 1966	(1,295,355)	
Net Taxable Income (Loss) <u>for Federal Taxes</u>	$ (897,547)	
Tax Thereon		0
TOTAL		$ 20,937

8/ Projected average system rate base is shown by D. C. Transit Exhibit 8 to be $27,325,520.

Consideration of evidence in the record reveals that all of these relationships indicate that the return is in a range consistent with our view of the business and financial risks faced by D. C. Transit. Taking, first, the evidence of record presented by Dr. Roberts, we have already discussed the relationship between this return and the data provided by Dr. Roberts concerning five comparative transit companies. D. C. Transit faces less risk than each of them and its rate of return is lower than each of them.

We can also compare our conclusion with some data presented by Mr. McElfresh. In Mr. McElfresh's view, the most pertinent data he presented were the rates of return allowed by other regulatory commissions in recent cases involving transit companies. In recent years, these allowed returns have ranged from a low of 4.2% to a high of 6.87% with the medians as follows:

1962 -- 5.65%
1963 -- 8.00%
1965 -- 6.44%

Mr. McElfresh, who concluded that D. C. Transit faced more risk than the average utility, held the view that we should allow a return on the high side of this range. We have rejected Mr. McElfresh's view of the risk situation, however, and have concluded that D. C. Transit has less risk than the average transit company. We have allowed a return on the low side of the range set out in Mr. McElfresh's testimony. Hence, our allowance comports with Mr. McElfresh's data, and his approach to it, although we reach a different conclusion because we proceed from a different premise as to the degree of risk.

Mr. McElfresh also presented data concerning 18 urban transit companies. We expressed in Order No. 656 our reservations as to the validity of comparing data on D. C. Transit with averages derived from a group of other companies. See Order No. 656, pp. 21 - 22. As indicated there, we will not rely solely on such comparisons to determine the proper return. However, we think that it is worth making such a comparison as a rough measure of the range in which we should place D. C. Transit.

The major yardsticks for comparison used by Witness McElfresh were contained in Exhibit 28, and were repeated in Exhibits 40 and 40A. The basic data which he developed is set out below, and we place alongside it the comparable results of the projected fair return of D. C. Transit:

	Composite Data - 18 Urban Transit Companies (D. C. Transit Exh. 28) 1965	D. C. Transit Data Projected-Based on Net Operating Income of $1,903,768 (1967) and Financial Data in D. C. Transit Exh. 2 (8/31/66)
Capitalization		
Long-Term Debt	43.33%	86.37%
Preferred Stock	3.96%	0
Common Equity	52.71%	13.63%
Total	100.00%	100.00%
Rate of Return on		
Total Capitalization	6.59%	6.17%
Common Stock Equity	8.36%	14.08%
Gross Plant	3.52%	4.34%
Net Plant	7.73%	6.85%
Gross Operating Revenues	5.22%	5.24%
Income Deduction Coverage		
(Times Interest Earned)	3.52	1.45

The critical relationships above are those which show lower rates of return to D. C. Transit than to the broad band of 18 other urban transit companies on total capitalization (long-term capital tied up in the venture) and on net plant (the original cost of plant devoted to the public service, less accrued depreciation).

This comparison confirms the fact that the net operating income at which we have arrived falls firmly within the range of reasonableness based on our judgment and the testimony of experts.

We are allowing a return on equity which is a higher figure than the return on common stock equity of some other transit referred to by Mr. McElfresh. 9/ On the other hand, D. C. Transit has a capital structure directly the opposite of most transit companies, i.e., it has a very high debt equity ratio while most transit companies have capital structures composed mostly of equity capital. As Dr. Roberts pointed out in his analysis, though, this situation actually redounds to the benefit of the ratepayer since the higher level of debt actually reduces the overall cost of capital for D. C. Transit. In other words, the equity in the company must receive a high return, because the entire risk of the venture is concentrated in a small percentage of its overall capital. The ratepayer does not suffer, however, because the cost of the large debt component is sufficiently low that the rider pays less for overall cost of capital than would otherwise be possible.

The return we propose to allow, therefore, when considered in terms of return on gross operating revenues and on equity invested, appears to fall in the range dictated by our general conclusions concerning the company's financial needs in light of the risks it faces. 10/

9/ The return on equity we have allowed, however, is less than half the amount recommended by Mr. McElfresh for this applicant.

10/ While not directly pertinent to a determination of the fair return, we think it is worth noting that the return we allow does not impose an excessive burden on the transit rider. The fare structure we here order will produce gross revenues for the company of about $36,000,000 in 1967. From this total amount, after all other obligations are met, the equity holder will receive about $600,000. This is just 1.67% of the total revenues. Taking the typical cash fare of $.25, the equity holder receives only about 1.67% of that amount, or $.004 (i.e., four-tenths of a cent or four mills). The actual cost to the rider of providing that return to the equity holder is, of course, somewhat higher due to taxes. Assuming that the tax rate is 50%, the cost of providing this return to the equity holder net of taxes is about twice the amount the equity holder receives. That is, in paying the typical cash fare of $.25, the rider is paying about $.008 (i.e., eight-tenths of a cent or eight mills) to provide a return to the equity holder.

We can further test the appropriateness of the return by considering the actual dollar amount. We are permitting approximately $600,000 to be returned to the equity holder. In the words of the Court of Appeals, this amount would be sufficient if it enables the company to "pay dividends sufficient to continue to attract investors, and retain a sufficient surplus to permit it to finance down payments on new equipment and generally to provide both the form and substance of financial strength and stability." D. C. Transit System, Inc. v. WMATC, 350 F 2d 753, (D. C. Cir. 1965).

Let us consider, first, the matter of dividends. We do not consider it our province to dictate the amount of dividends which should be paid. Rather, we should permit a return which will allow the management of the company to pay a sufficient dividend to compete in the capital markets. We have previously noted the limitation our allowance will place on the payment of dividends. Analysis of the cash flow reveals that a maximum of something less than $430,000 in cash will be available after meeting all other obligations. We do not anticipate that the entire amount of available cash would be used for dividends, however, as the company is manifestly in a cash-short position. Its working capital ratio stands at a very low level of .32. Use of some cash to improve this picture seems not only likely but desirable in terms of the overall financial health of the company.

We anticipate, therefore, that dividends will probably be at a level significantly lower than in some past years. We do not regard this as requiring a larger return. The substantial risks the company faced in coming into this community at a difficult time and converting to an all-bus operation with a high standard of service may well have dictated a high return of capital in past years. As we look at the company now, however, it faces a more secure future than most transit companies, having a modest but definite growth potential. Dividends on the level which seems possible under our return allowance should adequately compensate the equity holder.

The Motion to Dismiss argues that the dividend should be tested in the light of the equity capital originally invested in the firm. This is not a view which we can accept. The appropriateness of the dividend must be tested by the hard facts of the market place for capital funds. In that forum, emotional reactions to benefits which the equity holder has accrued in the past count for little. Rather, one must look at the amount of capital presently in the firm and determine whether it is producing a return commensurate with the risks involved. The equity capital in the firm now amounts to $4,207,439. The allowance provided in this case will give the equity holders a return of about 14% on that capital; dividends will probably be considerably under that percentage. In light of the company's risk situation this is not an excessive amount. If the return were limited as suggested in the report quoted by Movants, the cold fact is that the equity holders would probably soon withdraw their capital from this enterprise and invest it in more productive uses. We certainly could not expect a franchise holder, under those conditions, to maintain the levels of service we are seeking for this community.

The return will not only permit dividends on a level which seems adequate to us but will permit a modest growth in earned surplus, a requisite of any financially healthy company.

Both the dollar amount of the return and the rate of return on gross operating revenues are substantially less than that allowed only a year ago in our Order No. 564, and this perhaps deserves some comment. In that case, we provided a substantial cushion over and above the amount allowed for dividends. This was done because in reaching conclusions on expenses we had resolved most questions contrary to the company's contentions. There was ample room for error in our projections, particularly with regard to increases in labor expense due to the cost-of-living escalator clause in the company's labor contract. Because we had taken this approach in considering expenses, it was necessary to provide an ample cushion in the return element.

It was just as well we did, because in fact, during 1966, the company's expenses were significantly greater than our projections. In fact, the company received none of the amount we allowed as a cushion. Exhibit S-5 prepared by the Commission staff, which shows the company's 1966 operating results on the basis of 9 months actual figures and 3 months estimated shows that the company earned a return on gross operating revenues in 1966 of 4.43%, rather than the 6.03% allowed by Order No. 564.

Our approach has been different in the present case. Little dispute exists as to the accuracy of the amounts we have allowed for operating expenses. Because of the way in which cost of living increases are specifically provided for in the new labor contract we have allowed for the entire increased labor expense during the year 1967.11/ Because our allowances for expenses in this proceeding are much firmer than in the last case, we have been able to cut much closer to the bone on the return element. Hence, the rate of return, and the dollar amount, herein provided are lower than allowed in Order No. 564.

To sum up on the question of return, on the basis of the record before us, it is our judgment that we should allow the company a net operating income of about $1,900,000. This is approximately the amount recommended by Dr. Roberts but we do not base our conclusion on an acceptance, in toto, of his reasoning. While his analysis has much to recommend it, we do not feel we can give unqualified acceptance to the methodology and assumptions he uses in quantifying the return to be allowed. His conclusion, nonetheless, makes eminent good sense to us. It provides a return which, when expressed in terms of its relationship to gross operating revenues, system rate base, and equity capital invested, falls into a range which, when compared with other enterprises,

11/ The question of the cost of the new labor contract was the issue, other than rate of return, considered at the hearings held subsequent to the entry of Order No. 656. No question was raised at the further hearings as to the accuracy of the Commission's treatment of the cost of that contract, as set forth in Order No. 656.

is commensurate with the risks the company faces. In this regard, we conclude that the company faces less risk than most transit companies because of its size, its position in the holding company corporate structure of which it is a part, its prospects for future growth in its transit operations, and, finally, the cushion provided by the increasing value of its real estate. The return we allow will permit a dividend which will probably be lower than that paid in the past. This seems appropriate since, in our view, the company presently faces less risks than it may have in the past. There will be enough, we believe, for a dividend appropriate to the amount of equity capital now invested in the firm. The return will further allow for a growth in earned surplus, attributable to transit operations, at about the same rate the company has maintained in the past from the same source. This is enough, we believe, to maintain the company's financial health. Finally, the return allowed does not impose a heavy burden on the riding public. On a typical ride with a cash fare of $.25, the cost of providing the return to the equity holder will be less than one cent. In light of our discussion in this opinion, we conclude that the return we here allow will enable the company "to cover interest on its debt, pay dividends sufficient to continue to attract investors, and retain a sufficient surplus to permit it to finance down payments on new equipment and generally to provide both the form and substance of financial strength and stability." D. C. Transit System, Inc. v. WMATC, 350 F 2d 753, (D. C. Cir. 1965).

THE RATE STRUCTURE

We can now turn to a discussion of the fare structure which should be put into effect to produce the amount required to cover projected operating expenses and produce a return of the amount allowed. The fare structure proposed by D. C. Transit if accepted <u>in toto</u> would produce the following operating results:

Projected Operating Statement for Year 1967 at Fares Proposed by Applicant

Operating Revenue		$37,446,727
Operating Revenue Deductions:		
Operating Expenses	$30,636,944	
Taxes, Other than Income Taxes	1,013,693	
Income Taxes (D. C. & Maryland)	141,014	
Depreciation	2,964,321	
Amortization of Acquisition Adjustment	(194,516)	
Total Operating Revenue Deductions		34,561,456
NET OPERATING INCOME		$ 2,885,271
Operating Ratio		92.29%
Return on Gross Operating Revenue		7.71%

The return which D. C. Transit would earn would substantially exceed the amount we have found to be proper. Hence, these fares would be unjust and unreasonable.

In Order No. 656, we established an interim fare structure which adopted all changes in Maryland fares proposed by D. C. Transit except the following:

1. The acceptance and issuance of transfers on the Silver Rocket Express Service to be continued.

2. The charge for carriage between the District of Columbia and:

(a) The first Maryland Interstate Zone, or any part thereof, to be 40¢ cash fare for local service and 50¢ cash fare for express service.

(b) The second Maryland Interstate Zone, or any part thereof, to be 45¢ cash fare for local service and 60¢ cash fare for express service.

In the District of Columbia the interim order raised the cost of tokens from four for $.85 to four for $.95 rather than four for $1.00, as proposed by the company. We also did not include the proposed $.05 charge for a transfer in our interim fare structure. Finally, we provided that the charge for carriage on the Capitol Hill Express would be $.60 cash fare or $.40 cash fare and a valid D. C. Transit transfer.

That interim fare structure, had it not been overturned, would only have allowed the company to recover its operating costs, rather than suffer a loss, during the period in which we were considering the question of the return to be allowed. We have now concluded our consideration of that question. Hence, we must now establish a fare structure which will not only cover the deficit in operating expenses which we have found to exist, but will also provide a return of approximately $1,900,000.

On the basis of data in the record, we have computed that a fare structure which consists of Maryland and Capitol Hill Express fares at the levels which would have been permitted on an interim basis by Order No. 656, plus an increase in the cost of tokens from four for $.85 to four for $.98 will produce passenger revenues for 1967 of $34,019,792, as shown above on page 24 of this order.

Passenger Revenues projected for 1967 in Order No. 656 (p. 26) were $33,616,166. The only change from that, promulgated herein, is the raising of the D. C. token fare from four for $.95 to four for $.98. The effect of this change is calculated as follows:

Token Rate	One-Way Rides	Revenue Projected
4/$.98	70,067,543[12/]	$17,166,548
4/$.95	70,580,726[12/]	16,762,922
Projected Increase in Revenue		$ 403,626
Passenger Revenues as Projected in Order No. 656		33,616,166
Passenger Revenues as Projected Herein (p. 24)		$34,019,792

The changes in the Maryland fares are fully justified by this record. The present Maryland Intrastate zone rates have been in effect almost without change since 1955.[13/] The present Interstate express fares have been in effect without change since 1960. The actual structure of the new zone rates was carefully explained by witnesses for the company. The only serious challenge to that structure was made by the Commission's Chief Engineer, who suggested that the fares proposed by the company for the first zone of carriage in Maryland were unduly high. We have accepted his view and have reduced the increases proposed by the company in Maryland accordingly.

That brings us to the changes in the District of Columbia fares. We consider it best to leave the cash fare at its present level of $.25. It is a convenient cash fare in terms of making change, for both the public and the company. It is a cash fare generally in line with or lower than in other cities of similar size throughout the country.

12/ The number of one-way rides was calculated by adjusting one-way rides shown on Exhibit S-3A giving effect to .20% passenger resistance for each 1% increase in token rate over 4/$.85. This was the resistance factor testified to in the record.

13/ The only change in that time was an increase in the Zone 1 charge from $.12 to $.15 in 1961.

We have rejected the proposal of a charge for transfers. We feel that it is certainly not appropriate in view of the company's present financial needs. The revenues required can be raised by keeping the cash fare at its present level and by raising the price of tokens to a level less than the cash fare. In these circumstances, it does not seem appropriate to impose a charge for transfers, the burden of which does not fall evenly on the riding public.

We will raise the price of tokens to four for $.98. This will produce, in conjunction with the other changes, the revenues we have found to be necessary and proper for the company. It will still permit some saving to be made through the purchase of tokens.

At the hearing, and in the Motion to Dismiss, the question was raised whether more sweeping changes in the rate structure should be made. Specifically, the suggestion was made that fares should be lower in the densely populated areas of the center city and higher in outlying areas where population is thinner. We should say, first, that we think the distribution of fare increases ordered herein is just and reasonable. It is of interest, in this connection, to consider the distribution of the increases made effective by this order.

The following table gives the present and authorized average fares and the percentage changes.

Average Fare ¢

Type	Present	Authorized	Change
D. C.			
Cash	25	25	- 0 -
Token	21.25	24.50	15.3%
Cap. Hill	50	60	20.0%
Mini	10	10	- 0 -
School	10	10	- 0 -
Md.			
Intra.	22.7	30.53	34.5%
Inter. Exp.	47.4	57.89	22.1%
Inter. Local	22.7	23.4	3.1%
D.C. & Md.			
Interline	17.50	22.50	28.6%
Stadium	50	60	20.0%
Silver Rocket	45	50	11.1%

Although the above table shows that the Maryland passengers are receiving a greater percentage increase in fares than the District of Columbia passengers, it appears that the authorized fares will be more equitable. For example, the minimum local cash fare in Maryland will now be the same as the cash fare in the District of Columbia.

The facts as they appear in the record reveal the following:

	(a) Per Exhibit #5 1967 Rev. w/o Fare Changes	(b) Per Exhibit #S-4[14] Increases Granted	(c) Per Exhibit #S-4[14] Revenue Forecast	% Increase (c) over (a)
Md. local and Interstate fares	$ 4,018,199	$ 593,709(22%)	$ 4,611,908(14%)	14.8%
D.C. fares, incl. interline fares	$27,291,729	$2,057,029(78%)	$29,348,758(86%)	7.5%
Unallocated	59,126		$ 59,126	
Totals	$31,369,054	$2,650,738(100%)	$34,019,792(100%)	

The Maryland and Interstate riders contribute 14% of the Company's overall revenue and will produce 22% of the increased revenue. The District of Columbia riders contribute 86% of the overall revenue and will produce 78% of the increased revenue. Or stated another way, D. C. patrons now contribute $27,291,729 to the overall revenue of D. C. Transit and will contribute $29,348,758 or an increase of 7.5%, whereas, Maryland patrons now contribute $4,018,199, will contribute $4,611,908 or an increase of 14.8%.

In setting out these facts, we do not imply that the new fares are just and reasonable solely and simply because the suburban rider bears a greater proportionate share of the increase. Rather, we feel that, since suburban fares have not had a substantial increase for some time, it would be equitable at this time to make greater increases in that sphere than in fares within the District of Columbia. The facts we have just set forth demonstrate that this end has been accomplished.

We are not impressed with Movants' argument that we cannot establish a just and reasonable fare structure at this time because we do not have before us comparative analyses of costs

14/ Adjusted for tokens at 4/$.98.

and earnings by route. Nor will we defer changes in the rate structure until a "scientific study" of this subject can be made.

First, we feel that this suggestion is based on the basically false premise that transit fares should be established so that they are compensatory in all instances on a fully distributed cost basis. The function of a public mass transit system is to provide public transportation on a rational basis for the entire area served by the system. It is inherent in that objective that some routes will not produce revenues equal to the costs involved in providing the service. Service could not be denied to such areas since this would either deprive residents thereof entirely of transportation or force them into the use of their own automobiles, thus increasing traffic congestion and defeating the overall purpose of a mass transit system. Nor is the answer simply to raise the price of service to such areas to a level which will cover costs. As soon as transit fares become roughly comparable to the cost of operating a private vehicle, the rider will switch to his automobile, again defeating the end sought by having a mass transit system. Indeed, it is probable that the cost of public transportation must be kept considerably under that of private transportation to retain transit riders who would otherwise be attracted by the convenience of using their own vehicles. Thus, we feel that the basic premise of Movants' suggestion is highly questionable in terms of sound transportation planning.

Indeed, the Compact itself makes it clear that the theory of rate-making espoused by Movants must be rejected. Section 4(i) of Article XII provides, in part

> "The fact that a carrier is operating a route or furnishing a service at a loss shall not, of itself, determine the question of whether abandonment of the route or service over the route is consistent with the public interest as long as the carrier earns a reasonable return."

We believe this language carries the further implication that a just and reasonable rate need not be one which is based on a cost of service concept.

Moreover, the contention that fares should be set on a strict cost of service concept conflicts with the thinking of many theorists on the subject of rate structure. It has long been recognized that in pricing utility services, some consideration should properly be given to the "value of service approach"--an approach described in the literature as referring to "the conditions of demand which characterize the different segments of a utility's market." Garfield & Lovejoy, Public Utility Economics 142 (1964). Indeed, there are theorists who argue that "the rates charged those customer classes whose demand is relatively inelastic should include a greater proportion of joint costs than the rates charged customer classes characterized by a comparatively elastic demand." Garfield & Lovejoy, supra, at 144. This thesis is diametrically opposed to the position urged upon us by Movants. Yet Movants argue that unless we adopt their position we cannot establish a fare structure which is just and reasonable. We do not say that we adopt the view quoted from Garfield and Lovejoy. However, we do conclude that we can establish a just and reasonable fare structure without basing it on a strict cost of service approach, as Movants would have us do.

The suburban portions of the company's service were shown in this record to be the areas where the company is experiencing a growth pattern. It is this growth pattern which permitted us to establish a lower rate of return than would otherwise have been possible. It would be folly to stifle that growth by imposing a rate structure which would discourage the use of public transportation.

In any event, we do not accept Movants' assertion that on this record it must be concluded that the central city operations are subsidising the suburban operations. Movants base this contention on data gleaned from Exhibit S-11, prepared by the Commission's Chief Accountant. Movants' use of this exhibit in support of their position brings to mind the words of Alexander Pope: "A little learning is a dangerous thing; drink deep, or taste not the Pierian Spring." Movants have looked only to the exhibit and not to the testimony concerning it.

It was there carefully explained that this exhibit was based strictly upon the methodology required by the provisions of Public Law 87-507. This law is the one which governs the determination of D. C. Transit's eligibility for the school fare subsidy. The Commission's Chief Accountant was attempting to explain, rationally and precisely, why applicant could not, in the foreseeable future, qualify the relief by way of the school fare subsidy as it was provided for in Public Law 87-507. To use Exhibit S-11 for any other purpose is simply to mislead. The Chief Accountant said:

> These costs were allocated to the various segments of the Company's operations on this exhibit on a joint-product basis, and this is the basis under the law that we use for allocating cost for the school fare subsidy certification. However, if I were to allocate the costs to limousine, charter and contract work, and to the Maryland operations, on a basis that would give weight to operational problems, and to the broad economic and sociological interplay existing between the suburbs and the central city, then I would more properly use an incremental cost basis for allocating these costs. Using such an incremental cost basis, we would come up with possibly a more empirically oriented figure which would show that without charter and contract work to pick up slack time, and without the Maryland interstate traffic to feed into the central city, the overhead cost permeating the entire company would have to be borne by the D. C. operations alone, and the computed cost per mile in the city would sky-rocket as a result. (Transcript, p. 773.)

One major point that must be mentioned in this context is the labor contract under which D. C. Transit schedules its service. Each operator is guaranteed a minimum of eight hours of pay per day. Thus, many charter and contract runs, occurring in the off-peak hours are operated by personnel who otherwise would be idle, and would be nevertheless paid what is known as "makeup" time at regular rates of pay. Thus, although off-peak operations are being charged at full rates of pay for operators in Exhibit S-11, because this is what the subsidy law requires, the fact remains that the availability of this type of service, and the revenue therefrom, acts only to relieve the regular operations of an additional cost burden.

There is no basis in the record, therefore, on which it can be concluded that District of Columbia riders are subsidising the suburban operations of the company. This does not mean, however, that the record is barren on this general subject.

It was testified by both Mr. Bell, a vice-president of the company, and Mr. McElfresh, that it was not practicable to break cost figures down to obtain an accurate cost picture as to a particular route. Herein lies another fallacy in the position Movants urge upon us.

Movants ask for a "scientific study" to determine the profitability of specific routes. They thus imply that it would be possible to reach a specific and fixed answer as to the cost of operating a given line and the profits being earned thereon. In fact, this could never be done because there is no fixed and knowable answer as to what such costs are. To achieve such a result, the thorny problem of allocating joint costs would first have to be overcome. Every line in the company's operation not only bears those costs directly attributable to it but it must also be assigned some portion of the myriad costs which are common to all lines. The assignment of these joint costs could be based on any one or more of dozens of factors, and any particular basis would have many arguments both for and against it. This is not to say that some answer could not be reached but to regard it as a "scientific" result would be sheer naivete. In fact, the answer would involve judgment piled upon judgment.

The end result might provide some interesting, and perhaps even some useful, information. It would hardly be indispensable to formulating a just and reasonable fare structure, however. We have already pointed out that many lines and routes must be operated by the company regardless of their profitability. Moreover, some of these cost factors on a given line would be so volatile that basing fare structure decisions on them as of a given moment could lead to results which would quickly become inequitable.

We conclude, therefore, that the fare structure we establish in this order is a just and reasonable one. The adjustments made to each specific fare are fully supported in the record. The distribution of the burden of the increase is fair and reasonable in light of the fact that Maryland fares have not been adjusted significantly for some years. We find no merit in the argument that we must establish fares on a strict cost of service approach nor do we believe that it can be concluded on this record that riders in the District of Columbia are subsidizing suburban riders.

The only question which remains is the timing of the increase. It is clear on this record that the company is losing a substantial sum of money daily. Moreover, in this order we are increasing the price of tokens. Every time the price of tokens has been increased by order of this Commission, or its predecessors, the rate order has traditionally become affective not more than three days from the date of entry. In these circumstances, we believe that the rate structure ordered herein should become effective at 12:01 A.M., March 15, 1967. In any event, this is the end of the 150 day period during which we can suspend the company's proposed fare structure.

FINDINGS OF FACT

We have stated our findings of fact on the issues in this proceeding in our discussion set forth in this order and in Order No. 656.

CONCLUSIONS OF LAW

The Commission concludes as a matter of law:

1. That the present fare structure of applicant is unjust and unreasonable in that it will produce an operating deficit in 1967 that will imperil the Company financially.

2. That the fares proposed by applicant would be unjust and unreasonable in that they would produce net operating revenues in excess of a fair return.

3. That the fares authorized by this Order are just and reasonable. They are not unduly preferential nor unduly discriminatory either between riders or sections of the Metropolitan District; they will produce earnings sufficient to save applicant from financial jeopardy, allowing the Company to pay its operating expenses, to service its debt, and to provide such additional amount as is necessary to provide for the financial health of the company.

4. That the "Motion of Thomas Payne and The Metropolitan Citizens Advisory Council To Dismiss The Application, To Take Additional Evidence, and To Conduct A Scientific Study To Determine A Fare Structure Which Is Equitable and Non-Discriminatory," filed on February 23, 1967, provides no basis for granting the relief sought in that Motion.

THEREFORE, IT IS ORDERED:

1. That applicant, D. C Transit System, Inc., be, and it is hereby, authorized to file a tariff on or before March 14, 1967, to become effective at or after 12:01 A.M. March 15, 1967, setting forth fares as shown below:

(A) Four (4) tokens for ninety-eight cents (98¢).

(B) Maryland Intrastate Local Service: twenty-five cents (25¢) cash for the first two zones of carriage, or any part thereof; ten cents (10¢) additional cash for each of the third and fourth zones of carriage, or any part thereof; and five cents (5¢) additional cash for each succeeding zone of carriage, or any part thereof.

(C) Maryland-District of Columbia Interstate Local Service: forty cents (40¢) cash, or fifteen cents (15¢) cash plus either a valid D. C. Transit transfer or one token, for regular route service within the District of Columbia and the first zone of carriage, or any part thereof, in Maryland; five cents (5¢) additional cash for the second zone of carriage, or any part thereof, in Maryland; ten cents (10¢) additional cash for each of the third and fourth zones of carriage, or any part thereof, in Maryland; and five cents (5¢) additional cash for each succeeding zone of carriage, or any part thereof, in Maryland.

(D) Maryland-District of Columbia Interstate Express Service: thirty-five cents (35¢) cash, or ten cents (10¢) cash plus either a valid D. C. Transit transfer or one token, between the District of Columbia and the Maryland-District of Columbia Line; fifteen cents (15¢) additional cash for the first zone of carriage, or any part thereof, in Maryland; ten cents (10¢) additional cash for each of the second, third, and fourth zones of carriage, or any part thereof, in Maryland; and five cents (5¢) additional cash for each succeeding zone of carriage, or any part thereof, in Maryland.

(E) Capitol Hill Express Service: sixty cents (60¢) cash, or forty cents (40¢) cash plus a valid D. C. Transit transfer.

(F) Virginia Interstate Zone: cash fare of ten cents (10¢).

(G) Interline Ticket: requiring five cents (5¢) additional cash to be deposited in fare box.

2. That applicant, D. C. Transit System, Inc., be, and it is hereby, authorized to file a tariff on or before March 14, 1967, to become effective at or after 12:01 A.M. March 15, 1967, setting forth a cash fare of sixty cents (60¢) for seasonal operations between points in the Washington Metropolitan Area and D. C. Stadium.

3. That D. C. Transit System, Inc., and Washington, Virginia and Maryland Coach Company, Inc., be, and they are hereby, authorized to file a joint tariff on or before March 14, 1967, to become effective at or after 12:01 A.M. March 15, 1967, setting forth a minimum cash fare of thirty-five cents (35¢) for the first three zones of carriage, or any part thereof, on the Silver Rocket Express, maintaining present transfer provisions.

4. That the "Motion of Thomas Payne and The Metropolitan Citizens Advisory Council To Dismiss The Application, To Take Additional Evidence, And To Conduct A Scientific Study To Determine A Fare Structure Which Is Equitable And Non-Discriminatory" be, and it is hereby, denied.

BY DIRECTION OF THE COMMISSION:

Edward D Storm

EDWARD D. STORM
Chairman

HOOKER, Commissioner, concurs.

It is obvious from the evidence in this case that the applicant's net earnings are grossly inadequate. Therefore, I concur in the increase granted, but desire that the record show that in my opinion the increase allowed is insufficient. The increase sought by the applicant should have been approved.

This is the third D. C. Transit rate hearing within less than four years. These rate hearings are time consuming and expensive and every dollar of such expenses is paid for by the riding public. It is doubtful that many of the bus riders realize that these expensive rate hearings do not cost the stockholders a dime; that these expenses are added to the overhead operating expense which is paid for by the public.

It is my opinion that if a rate of return had been allowed in the 1963 rate hearing as provided by Subsections 3 and 4, page 16 of Section 6, of the Tri-State Compact, we would not have had any other rate hearings prior to this time. It should be apparent to the most obstinate and biased person that the reason for these continuous rate hearings is that the rate of return has been inadequate.

It was my hope since becoming a member of this Commission to have a part in seeing that the people of the District of Columbia had a good, comfortable and convenient transportation service, but I am compelled to admit that I am becoming doubtful about it. The high standard of service that the people of the District of Columbia should have cannot be obtained unless those entrusted with the authority to render such service are permitted to receive an adequate return on their investment. The investing public will not put their money in a utility when the regulatory climate appears to be unwilling to approve a rate of return such as set forth by the Congress in the Compact as being reasonable.

I do not see how there can be any real doubt as to the intention of the Congress when it is so plainly stated that

"<u>the opportunity to earn a return of at least 6-1/2 per centum net after all taxes properly chargeable to transportation operations, including but not limited to income taxes, on gross operation revenues, shall not be considered unreasonable</u>." As corroboration in this belief I attach a copy of a letter, which I desire to be made a part of this opinion, from Congressman John L. McMillan of August 21, 1963 replying to a letter from me of August 19, 1963 stating his understanding of what the Congress had in mind when this Compact was passed. Congressman McMillan actively participated in the passage of this Compact. I specifically direct attention to the following statement in his letter of August 21, which reads "In fact, the explanation on the Floor of the House was to that effect and all during the Committee hearings it was the general understanding that the Company would be permitted to earn 6-1/2 per cent on its gross operating revenue." This statement, it seems to me, makes it "crystal clear" that the Congress intended for the Company to earn 6-1/2 per centum on its gross operating revenue and I shall hold to this opinion until some court of competent jurisdiction decides specifically otherwise.

APPENDIX

ORDER NO. 684

	FARES IN EFFECT PRIOR TO THIS ORDER	TRANSIT'S PROPOSED FARES	FARES AUTHORIZED HEREIN
DISTRICT OF COLUMBIA			
Cash	$ .25	$ .25	$ .25
Token	.2125(4/85¢)	.25	.2450(4/98¢)
Interline	.35	.35+5¢	.35+5¢
Capitol Hill Express	.50	.60	.60*
Minibus	.10	.10	.10
School	.10	.10	.10
Transfer	Free	.05	Free
MARYLAND			
Intrastate Local			
Zones 1	.15	.25	.25
2	.23	.25	.25
3	.30	.35	.35
4	.37	.45	.45
5	.44	.50	.50
6	.51	.55	.55
7	.58	.60	.60
8	.65	.65	.65
9	.72	.70	.70
10	.79	.75	.75
11	.86	.80	.80
12	.93	.85	.85
Interstate Local			
Zones 1	.40	.45	.40**
2	.48	.45	.45**
3	.55	.55	.55**
4	.62	.65	.65**
5	.69	.70	.70**
6	.76	.75	.75**
7	.83	.80	.80**
8	.90	.85	.85**
9	.97	.90	.90**
10	1.04	.95	.95**
11	1.11	1.00	1.00**
12	1.18	1.05	1.05**

	FARES IN EFFECT PRIOR TO THIS ORDER	TRANSIT'S PROPOSED FARES	FARES AUTHORIZED HEREIN
MARYLAND			
Interstate Express			
Md. - D. C. Line	.35	.35	.35**
Zones 1	.43	.60	.50**
2	.50	.60	.60**
3	.57	.70	.70**
4	.64	.80	.80**
5	.71	.85	.85**
6	.78	.90	.90**
7	.85	.95	.95**
8	.92	1.00	1.00**
9	.99	1.05	1.05**
10	1.06	1.10	1.10**
11	1.13	1.15	1.15**
12	1.20	1.20	1.20**
10 Ride Commutation Ticket		DISCONTINUED SEE INTERSTATE EXPRESS FARES	DISCONTINUED SEE INTERSTATE EXPRESS FARES
D. C. Line	None		
Zones 1	$4.10		
2	4.75		
3	5.40		
4	5.75		
5	6.40		
6	7.00		
7	7.25		
8	7.80		
9	8.40		
10	9.00		
11	9.60		
12	10.20		
OTHER			
Silver Rocket	.30 3 Zones .10 ea. add'l zone Transfer Privilege	.35 3 Zones .10 ea. add'l zone Transfer Discontinued	.35 3 Zones .10 ea. add'l zone Transfer Privilege
Stadium	.50	.60	.60
Virginia Interstate Zone (Route C-1 Langley)	.07	.10	.10

*or valid transfer plus 40¢ cash
**valid transfer or token has 25¢ value toward total cash fare

March 13, 1967
10:00 A. M.

STATEMENT OF EDWARD D. STORM, CHAIRMAN OF THE
WASHINGTON METROPOLITAN AREA TRANSIT COMMISSION

Your WMATC now issues its final decision in D. C. Transit's request for certain fare increases.

You may recall that in January the Commission adopted temporary rates to protect the public from any deterioration in service during the period we waited for additional expert testimony regarding the proper "rate of return" to be allowed the applicant. That testimony was taken during three days of hearings in February and we have now adopted a rate of return of 5.24% on gross operating revenues. This 5.24% compares with and is 1.26% less than the 6.5% which Congress stated in the Compact should be considered as "not unreasonable."

The new fares are authorized to go into effect at midnight on March 14th. Had we not acted now, the tariff proposed by the applicant last October would go into effect. Rather than burden you with technicalities which had to be considered in making our final decision or listing each of the individual rate changes, we can summarize the new rates by saying that they are the same as the fares set in the Interim or Temporary Order except for only one change. The price of tokens will be raised from the 4 for 95¢ (provided in the Interim Order) to 4 for 98¢.

You will recall that the Interim Order provided for the company's costs of operation, its interest expense and a margin of 6/10 of 1% to allow for error. Our new Order will allow 1.67% of total revenues over and above costs of operation and interest expenses.

We realize that you who were dissatisfied with the schedule of fares set in the Interim Order will still be dissatisfied. We are sorry. We have done the best that we could. We must allow enough for the company to meet its expenses and make a small margin of profit. The margin of profit allowed is much less than that enjoyed by many similar transit systems; it is less than that mentioned by the Congress in the basic law governing this area; and it is no more than enough to keep your transit system operating efficiently and comfortably (for you). From the typical 25¢ fare, only 4/10 of a penny will go for profit. To provide this profit, you will have to pay 8/10 of a penny because roughly half of the "profit" goes for income tax. So--the fare increase has neither the purpose nor the effect of extracting a substantial sum from the ratepayer to provide a profit to the Transit Company. Rather, it is made necessary by significantly increased costs of operation--particularly increases in labor costs.

One further note should be made, especially to Maryland riders. You have an advantage over the non-voting residents of the District. You have representatives in the Senate and the House of Representatives. You can help yourselves and your Commission by asking your representatives to relieve you from several burdens which we feel are unfair to you.

First--you should be relieved from the responsibility of the track removal and repaving program. Since 1956, you have had to pay 6.5 million dollars in bus fares into this reserve. Only 3/4 of a million remains in that fund. YOU and other bus riders may be called on to contribute to this in the future unless the law is changed.

Second--you should be relieved from the burden of paying the company enough money to pay federal income taxes. Many transit systems pay no income tax, receive subsidies of one kind or another, and still charge their riders as much as or more than you have to pay. If your elected representatives know that you feel this is unfair to you, they may be able to change it by eliminating the income tax on urban transit. This would save you about 4/10 of a cent on the typical 25¢ fare. And this proposal is only for your benefit--it will not help D. C. Transit--in fact, the elimination of income tax on the company would actually cost them the investment tax credit which they are now entitled to keep for the benefit of their stockholders. This sounds complicated--it is--but it is a fact that this proposal is made to benefit the bus rider and no one else!

A full schedule of the new fares is available at our offices or at D. C. Transit. We hope that when you study it you will agree with us that the cost of urban transit in the Washington area served by D. C. Transit has been spread as equitably as possible among all the riders who need this important service. Although the cost of your bus rides will now be increased for many of you--especially in Maryland--it will still pay you to take the bus rather than your car. If more of you take the bus, you will not only save considerable in your operating costs, you will save the high parking fees and you will save time by alleviating our congested traffic snarls that waste so much time, energy and money every morning and afternoon. Ride the bus, save money and prevent further increases which we hope will never be necessary.